



Revised June 14, 2006

Budget Negotiations Move Toward Closure

The Conference Committee on the 2006-07 Budget concluded work on Saturday, June 10, sending a spending plan, contained in AB 1801, to the floor of each house of the Legislature. The Conference Report was approved by a 2-1 vote by conferees of each house, with the Democratic conferees voting "aye" and the Republican committee members voting "no." Floor votes on the budget may occur as early as Thursday, June 15, the constitutional deadline for the Legislature to send a spending plan to the Governor.

Press reports, and the "no" votes by the Republican conferees, suggest that the current proposal may lack the two-thirds support of each house of the Legislature necessary to pass a budget. The Conference Committee's budget largely tracks the Governor's May Revision with several key differences:

- The Conference Committee report reflects financial and policy changes to the CalWORKs Programs intended to help the state meet new federal work participation requirements. The Governor's May Revision did not significantly address the recent changes to federal law.
- The Conference Committee report allocates a larger share of K-14 education monies as a block grant to local districts and school sites, while the Governor earmarked a larger share of the money for specific programs.
- The Conference Committee report establishes a framework for expanding health coverage to additional children.
- The Conference Committee report rejects the Governor's proposal to allocate \$1 billion for early repayment of the deficit financing bonds and, instead, adopts an approach modeled on recommendations of the Legislative Analyst's Office to use the same amount to repay debts that are due in 2007-08 or 2008-09.

This summary outlines areas of major difference between the conference report and the Governor's May Revision. It is based on Conference Committee handouts and action reports, as well as media reports and other summaries of the debate to date.

Health

- The conference report adopts the Governor's May Revision proposal to allocate \$22.8 million to provide health coverage to nearly 24,000 children through county-based children's health initiatives. The one-time funding would support health coverage for children ages 6 through 18 who are not eligible for the Medi-Cal or Healthy Families Programs and whose families' incomes are at or below 300 percent of the federal poverty level (FPL, \$49,800 for a family of three).

- The conference report also expands eligibility for the Healthy Families Program to all children with family incomes up to 275 percent of the FPL beginning July 1, 2007 and up to 300 percent of the FPL beginning July 1, 2008. The Conference Committee provided \$1.9 million to support seven staff positions to begin implementation of the expansion. Currently, children are eligible for Healthy Families if their families' incomes are at or below 250 percent of the FPL (\$41,500 for a family of three), if they are not eligible for Medi-Cal, and if they meet citizenship or immigration requirements. The Governor did not allocate funds to expand eligibility for the Healthy Families Program.

K-12 Education

- The Governor's May Revision allocated \$1.4 billion in one-time Proposition 98 funds to a variety of specific programs. The conference report included a similar level of one-time funding, but outlined a different plan for allocating these funds. Instead, the Conference Committee allocated most of the one-time funds to a block grant that would be divided between school districts and school sites on a 25 percent/75 percent basis. The Conference Committee also specified the purposes for which schools and school districts could use the funds, including instructional materials, deferred maintenance, art and music supplies, and fiscal solvency. The conference report also allocated \$222 million in one-time Proposition 98 funds to a number of specific programs.
- The Governor's May Revision allocated \$50 million to expand state-funded preschool programs, with a focus on expansion in the areas served by low-performing schools. The May Revision also allocated \$50 million in one-time funding for preschool facilities. The conference report does not include funds for this proposal.
- The Conference Committee allocated an additional \$300 million to Economic Impact Aid, which provides funds to school districts with disproportionate numbers of low-income students. This augmentation was intended to balance the Governor's proposal to provide \$300 million for equalization of general purpose school district revenues, which is also included in the conference committee's spending plan.

CalWORKs

The Conference Committee approved a package of funding and policy changes to the CalWORKs Program in response to the reauthorization of the federal Temporary Assistance for Needy Families (TANF) block grant. Starting in October 2006, California must substantially increase the number of CalWORKs participants meeting federal work requirements or face substantial penalties. The Conference Committee package provides \$100 million more for CalWORKs than was included in the Governor's May Revision. The package includes:

- \$140 million to increase the funding that counties use to provide employment services and child care for CalWORKs participants;
- \$89 million for counties to implement strategies to increase the number of CalWORKs participants meeting federal work requirements, including making home visits to families who are at risk of being sanctioned for not complying with program rules;
- \$9 million to increase the number of work study positions available to CalWORKs participants enrolled in a community college; and
- \$5 million for an initiative to reduce homelessness among CalWORKs families.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program

- The Conference Committee voted to provide the federal cost-of-living adjustment (COLA) for SSI/SSP grants in January 2007, eliminating the three-month delay included in the 2005-06 budget agreement. The Governor's May Revision assumed the federal COLA would be withheld from SSI/SSP recipients and used to offset the

state's costs for the program until April 2007, for state savings of \$42.3 million in 2006-07. SSI/SSP payments help low-income seniors and people with disabilities meet basic living expenses.

Child Care

- The Conference Committee allocated \$67 million for 2006-07 to increase the income eligibility limit for subsidized child care, which has not been adjusted to reflect the increase in the cost of living since 2000. According to observers and materials provided by budget committee staff, the Committee's action will require families to pay fees for child care assistance when their incomes reach approximately 40 percent of the state median income (SMI) and will allow the state to assess fees of up to 10 percent of a family's income. Currently, families pay fees when their incomes reach 50 percent of the SMI and fees do not exceed 8.3 percent of a family's income for full-time, daily child care. The Governor expressed interest in updating the income eligibility limit in 2006-07, but sought to do so without increasing state spending.

Transportation

- The Conference Committee adopted compromises, opposed by the Republican conferees, on the two major transportation issues: the allocation of spillover revenues and Proposition 42 funding. Reports suggest that the "Big Five" will consider resolution of the differences. In his May Revision, the Governor proposed to shift revenues from a portion of the sales tax on gasoline (so-called "spillover" revenues) to a new fund dedicated to paying a portion of the debt service on existing and new transportation bonds. The Conference Committee rejected this proposal. The Conference Committee also differed with the Governor over the size of the 2006-07 Proposition 42 loan repayment.